BRECKINRIDGE
CAPITAL
ADVISORS

MARKET COMMENTARY

October 2011

Monthly Review

Sentiment Reverses; Investors Embrace Risk

Investor sentiment took a sharp turn in October. The fear trade that spurred a flight to quality during the third quarter vanished as investors fled the safety of Treasuries and embraced risk. Better-than-expected economic data confirmed the U.S. was not falling into an imminent recession, which fueled positive investor sentiment. Relatively strong corporate earnings and the increased likelihood of a resolution to the Greek debt crisis also drove the shift in sentiment.

As a result, Treasuries experienced one of the worst months of the year with maturities of more than five years posting negative total returns. Long yields rose despite the Federal Reserve's new "Operation Twist" policy in which they sold bonds with short maturities and purchased longer maturities. The Fed's purchases failed to prevent the yield curve from steepening significantly in October.

Tax-Exempt Market

Munis Follow Treasuries; Yields Rise

Tax-exempt bonds also declined during the month, producing negative returns across the yield curve. New-issue tax-exempt supply reached $34 billion, a level last seen in June 2009. Some of the issuance was refinanced debt as issuers took advantage of lower rates. Continued inflows into intermediate tax-exempt bond funds helped absorb the additional supply without significant market disruption.

Munis remained relatively inexpensive versus Treasuries, corporate bonds and other taxable sectors. New-issue supply over the near term may hold munis prices at attractive levels. Investor appetite for longer maturity bonds is quite low as evidenced by the continued outflows from long-maturity muni funds. It appears that most of the demand for long-maturity munis is from crossover buyers who are taking advantage of higher muni yields compared to Treasuries. If this demand diminishes, it could cause the yield curve to steepen.

From a credit standpoint, there continue to be many headlines regarding a few specific deteriorating credits such as Harrisburg, PA and Central Falls, RI. However, we believe the problems in these cases are issuer-specific and not endemic to the municipal bond sector. More importantly, these are the types of credits that have never met Breckinridge's standards for investment.

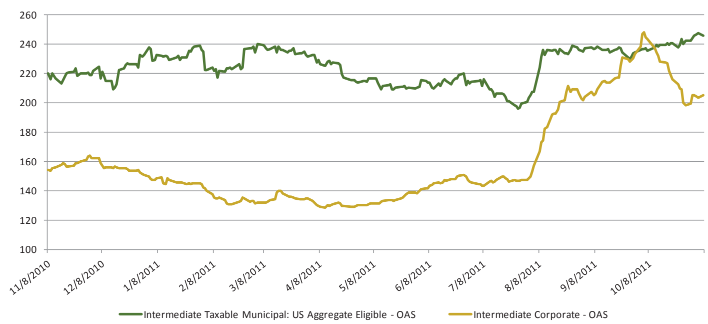
Taxable Market

Corporates Shine as Risk is Rewarded

Higher risk assets outperformed in the reversal of the flight to quality. All corporate bonds posted strong gains for the month, particularly bank and finance issuers that had underperformed over the last 12 months. Corporate yield spreads tightened more than taxable munis during the month and the gap between the sectors expanded, as shown in the chart below. The chart also reflects the high degree of volatility of corporate bond spreads relative to taxable munis, which characteristically have less spread volatility.

Taxable Muni vs. Corporate Bond Spread History

Source: Barclays



Breckinridge Strategy

Navigating through Headline Risk

The muni market has been subject to headline risk for several years, as states and municipalities have struggled to deal with budget deficits and outsized future pension and benefit obligations. We believe state and local municipalities will face budgetary pressures for quite some time due to the lackluster economic recovery. Our credit process strives early on to identify issuers with strong management teams that pursue sound and sustainable fiscal practices. A highly rated municipal bond credit is typically one with a management team that has taken a more prudent long-term view. An example is a municipality that has allocated excess reserves to a rainy-day fund for future needs or has planned and reserved for future pension obligations.

In the corporate bond market, headline or "event" risk is fairly cyclical and often dependent on what is going on in the equity market. We believe that the weak economy and its negative impact on corporate earnings will increasingly put pressure on management to boost stock prices. How companies go about doing this and what impact their decisions have on bondholders are critical factors that we examine. We believe the cycle is currently transitioning to one of rising event risk and re-leveraging of balance sheets.

Headline risk for both munis and corporates is expected to remain high in the near term. We believe our thorough credit research process, which includes traditional credit and ratio analysis as well as an emphasis on overall governance, will help us successfully navigate through this cycle.

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PERFORMANCE DISCLAIMER: In October 2009, a discrepancy was identified in the pricing methodology used by BCA's pricing service when pricing US Agency bonds. This discrepancy resulted in overstating prices on these bonds for the period 4/30/09 through 10/31/09. The methodology was corrected for the month ending 11/30/09. BCA repriced the affected holdings and has restated performance for this period. Corrected performance values are included in all performance values as of 12/31/09. Corrected monthly performance is reported in the table below. Additional information regarding the pricing discrepancies is available upon request.

Breckinridge Capital Advisors, Inc. has prepared and presented this report in compliance with the Global Investment Performance Standards (GIPS®). Breckinridge Capital Advisors, Inc. has been verified for the periods 12/31/02 – 12/31/09 by Beacon Verification Services. A copy of the verification report is available upon request.

Breckinridge Capital Advisors, Inc. (BCA) is an independent, SEC registered investment management firm established in 1993, which manages fixed-income portfolios, primarily through other investment managers or consultants. Breckinridge charges a fee for its management that is negotiated with each investment manager based on portfolio size and services provided. Additional information on portfolio management fees is found in ADV II.

BCA defines a discretionary account as an account where the holder has given BCA full authority to buy and sell securities. Only discretionary accounts are included in a composite. A client may impose restrictions on the investments that can be made for an account. These could include minimum credit ratings, maximum maturities and limiting BCA's ability to sell securities due to tax concerns. Any account with extensive restrictions that limit BCA's ability to effectively manage an account in accordance with BCA's established management styles will be considered non-discretionary. Accounts with specific state biases are non-discretionary because we are instructed to invest in the specific state if adequate supply exists. The maximum fee BCA assesses for management of a client account is 35 basis points. Fees are negotiable based on the size and nature of the portfolio and if the portfolio is managed through a wrap account.

The Intermediate Taxable composite includes all eligible portfolios that invest in high grade intermediate taxable municipal bonds, treasuries and agencies for stable income and capital preservation. The accounts are benchmarked against Barclays Aggregate or Government/Credit Intermediate Index. Inclusion in the composite is based on the following parameters: Accounts must have no client directed preferences or restrictions with respect to the states in which they can invest. Portfolios with significant cash flows, contributions or withdrawals, equal to 10% or more of the portfolio value, within a given period are excluded from the composite for that period. If all other criteria are met, accounts removed from the composite due to a significant cash flow are returned the following period. The Composite return is calculated including cash holdings. Accounts must have a maximum maturity of at least 10 years. Non-fee paying accounts are excluded from the composite. Accounts that meet all other inclusion criteria are added to the composite after the first full month of management. A complete listing and description of all composites is available upon request.

Net performance results for the single aggregate portfolio used to calculate performance reflect the deduction of the maximum Breckinridge investment advisory fee for the accounts included in the composite. Portfolio performance will be reduced by investment advisory fees charged by Breckinridge. Additional fees charged by WRAP program sponsors are not deducted. WRAP fees may include, among others, custodial fees, adminstrative fees and transactional fees. Gross performance is net of all trading expenses. Custodial charges, which may be incurred in the management of municipal bond portfolios, are not included in the performance calculations.

Calculations are done in US dollars using Modified Dietz time weighting. Additional information regarding significant cash flows is available upon request. Dispersion is the equal weighted standard deviation of individual account returns for accounts in the composite for the entire calendar year. The Composite is benched against the Barclays Aggregate Index (previously the Lehman Aggregate Index). Additional information on the performance calculation methodology and reporting is available on request. Past performance is not indicative of future results. All investments involve risk, including the loss of principal.